



June 28, 2013

Federal Housing Finance Agency
Office of Strategic Initiatives
“Securitization Infrastructure”
400 7th Street, S.W.
Washington, DC 20024

AGENCY: Federal Housing Finance Agency

Email address: SecuritizationInfrastructure@fhfa.gov

Title: FA Business Services, LLC comments on FHFA’s April 30, 2013 “A Progress Report on the Common Securitization Infrastructure”

COMPANY: FA Business Services, LLC, an affiliate of First American Title Insurance Company

ACTION: Comments regarding Common Securitization Platform

Dear Sir or Madam:

Please find attached FA Business Services, LLC’s comments, which I respectfully submit on behalf of the Company in response to the Federal Housing Finance Agency’s “A Progress Report on the Common Securitization Infrastructure” dated April 30, 2013.

The Agency’s consideration of these comments is encouraged and appreciated. Please direct any questions or comments to Mr. Patrick McLaughlin, email: pmclaughlin@firstam.com, phone: 714-250-4583, mailing address: 3 First American Way, Santa Ana, CA 92707.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Robert Camerota', with a stylized, cursive script.

Robert Camerota

Vice President

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Comments on FHFA's April 30, 2013 "A Progress Report on the Common Securitization Infrastructure"

FA Business Services, LLC

June 28, 2013

These comments are specific to the Data Validation area of the Common Securitization Platform's (CSP) functions.

A key purpose of the CSP proposed by the Federal Housing Finance Agency (FHFA) is designed to build a much more automated, flexible, open, data transparent, and scalable secondary market platform that will enable the Enterprises to gradually reduce their dominant presence and attract private capital. In addition to standardizing the creditor data stream for the request to issue a security, we suggest that FHFA pay attention to the opportunities for third-party data validation to assist in identifying a major hazard impacting the secondary market: mortgage manufacturing risk. For the purposes of these comments, mortgage manufacturing risk is the operational risk of the originating lender relative to their errors, omissions and/or fraud in the creation of the loan (also referred to as loan quality risk).

Most mortgage lenders have already tightened their underwriting standards voluntarily to minimize credit risk, and those who haven't will likely do so under the new Qualified Mortgage (QM) rule that becomes effective January 10, 2014. Conversely, the process of mortgage manufacturing remains unchanged since the economic crisis and recent studies indicate that high levels of quality defects continue to affect the stakeholders. The FHFA has a valuable opportunity here to expand the definition of the CSP Data Validation requirements to include mortgage manufacturing data (appraisal, HUD-1, etc.), obtained directly from non-creditor sources, so that it can also be used to increase data transparency in the manufacturing process, reducing this additional risks to investors.

FA Business Services, LLC has identified a very real gap in loan data and loan quality that occurs in mortgage manufacturing, at the time of settlement. Prior to settlement, many loan quality checks are being integrated into the loan process. The Pre-Funding loan quality process can include use of the Enterprises tools (like UCDP® and EarlyCheck™), key data verifications, fraud check tools and sample reviews/re-underwrites. One common theme of the Pre-Funding loan quality process is that it relies on the data residing in the loan origination system initiated by

the loan application and for the loan terms originally contemplated. Quite often several key data points and loan terms can change (multiple times) during the settlement process. It is quite common for HUD-1 revisions to occur a half dozen times in even a less complex refinance transaction. The changes made to the data and the loan terms in the flurry of activity leading up to the closing can have a significant impact on the quality, salability, compliance and defect risk associated with that loan.

Typically the HUD-1 Settlement Statement is provided by the settlement agent to the lender in a non data format, requiring the lender employee to visually identify not only the changes made but the potential impact on disclosures, compliance, potential fraud flags and investor qualifications. Additionally, it is common for lenders to retain a digital image from one of the many HUD-1 revisions; however, this may not necessarily represent the version signed by the consumer or the final version produced by the settlement agent. Both Enterprises have identified this process as a significant quality gap causing sometimes significant errors to be missed in both pre- and post-funding.

In recognition of this quality gap and with the goal of giving the lending community a tool to identify compliance, risk and investor requirement flags prior to funding, we recommend the CSP include a tool to extract HUD-1 data, from the version that represents a true accounting statement of the transaction, obtained directly and securely from non-creditor sources (the systems utilized by the settlement agents to close these transactions). The tool could also be capable of analyzing the extracted data (pre-funding and post-funding) for disclosure tolerances, other compliance issues, investor guidelines and multiple fraud flags.

The tool should be compliant with agreed upon standards (MISMO®, UMDP). We respectfully submit that a data validation of the loan utilizing the data extracted from neutral, third-party settlement agents would add to the data transparency and data integrity of the CSP and go a long way towards closing this quality gap, further mitigating the risk of mortgage manufacturing defects for the originating lender and the secondary market.

[END]